

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL OF (1) A :
PROCESS TO PROCURE :
ALTERNATIVE ENERGY CREDITS : DOCKET NO. P-
DURING THE AEPS BANKING PERIOD :
AND (2) A SECTION 1307 SURCHARGE :
AND TARIFF TO RECOVER AEPS :
COSTS :
:**

**DIRECT TESTIMONY OF
ALAN B. COHN

ON BEHALF OF
PECO ENERGY COMPANY**

MARCH 19, 2007

I. INTRODUCTION

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1. Q. Please state your full name and business address.

A. Alan B. Cohn. My business address is 2301 Market Street, Philadelphia, PA, 19103.

2. Q. By whom are you employed and in what capacity?

A. I am Manager, Revenue Analysis, Retail Rates, for PECO Energy Company (“PECO” or the “Company”).

3. Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support PECO’s request, as set forth in the *Petition of PECO Energy Company for Approval of (1) A Process to Procure Alternative Energy Credits During the AEPS Banking Period and (2) A Section 1307 Surcharge and Tariff to Recover AEPS Costs*, that the Pennsylvania Public Utility Commission (the “Commission” or “PUC”) approve a Section 1307 rate surcharge to fully recover PECO’s costs of compliance with Pennsylvania’s Alternative Energy Portfolio Standards Act of 2004, 73 Pa. C.S. § 1648.1 *et seq.* (“AEPS” or “Act 213”), including the costs of alternative energy credits (“AECs”) procured by PECO in accordance with the voluntary Requests for Proposal (“RFP”) described in PECO’s Petition.

1 Regulatory Affairs Division. Since that time, I have held various management
2 positions in PECO's Rate and Regulatory Affairs Department and Strategic
3 Planning Department where I had responsibility for managing base rate case
4 filings, cost of service studies and financial and economic analyses.

5 **7. Q. What is your educational background?**

6 A. I received a Bachelor of Science Degree in Commerce and Engineering from
7 Drexel University in 1980. In 1985, I received a Masters Degree in Business
8 Administration from Drexel. In addition, I have completed the American Gas
9 Association ("AGA") Gas Rate Fundamentals Course at the University of
10 Wisconsin and the AGA Advanced Gas Rate Course at the University of
11 Maryland.

12 **8. Q. Have you previously testified in any regulatory proceedings?**

13 A. Yes. I have testified on several occasions before the Pennsylvania PUC, the
14 Maryland Public Service Commission and the FERC.

15 **III. SUMMARY OF TESTIMONY**

16 **9. Q. Mr. Cohn, please summarize your testimony.**

17 A. My testimony is divided into three parts. First, I describe PECO's proposed
18 AEPS Cost-Recovery Provision, and explain how it will operate to recover the
19 costs of (1) AECs banked prior to the conclusion of PECO's stranded cost
20 recovery period, and (2) PECO's ongoing AEPS compliance costs after its
21 stranded cost recovery period has ended. Second, because Act 213 provides that

1 an electric distribution company (“EDC”) is entitled to earn a return on the
2 unamortized balance of deferred AEC costs, I explain the rate of return which
3 PECO proposes to apply to those AEC costs. Third, I present the form of notice
4 of the AEPS surcharge that PECO intends to use to communicate information
5 about this filing to its customers.

6 **IV. AEPS COST RECOVERY**

7 **10. Q. Mr. Cohn, please provide an overview of the cost recovery provisions of Act**
8 **213.**

9 A. Act 213 provides that all costs for the purchase of electricity from alternative
10 energy sources and payments for AECs are fully recoverable by EDCs as a cost of
11 generation supply pursuant to an automatic energy adjustment clause under
12 Section 1307 of the Public Utility Code. For an EDC like PECO, which is in a
13 “Cost-Recovery Period,” i.e., continuing to collect transition charges in
14 accordance with the Competition Act, AEPS-related costs incurred during
15 PECO’s Cost-Recovery Period are to be deferred as a regulatory asset and fully
16 recovered, with a return on the unamortized balance of those costs, during the first
17 year after the expiration of PECO’s Cost-Recovery Period. Any direct and
18 indirect costs for alternative energy and/or AECs incurred after the Cost-Recovery
19 Period, i.e. in PECO’s case, after December 31, 2010, are to be recovered on a
20 “full and current basis” through the Section 1307 surcharge. Thus, during the first
21 year after PECO’s Cost-Recovery Period ends, costs for both early AEPS

1 procurement during PECO's Cost-Recovery Period and AEPS compliance costs
2 incurred during that first year must be recovered.

3 11. Q. **Please describe the cost recovery mechanism PECO is proposing to**
4 **implement.**

5 A. In order to achieve recovery of AEPS costs on a "full and current basis" using a
6 Section 1307 surcharge, the costs to be incurred must be estimated and then
7 adjusted through reconciliation. If only historic costs (i.e., after the fact costs)
8 were utilized, recovery would not be "full and current."

9 The AEPS Cost-Recovery Provision PECO is proposing will become effective on
10 January 1, 2011, and, during the ensuing twelve-month period, would recover
11 both the costs deferred during PECO's Cost-Recovery Period and all additional
12 AEPS compliance costs to be incurred by PECO during calendar year 2011. The
13 provision will remain in effect thereafter to recover costs under the contracts
14 entered into pursuant to the RFP and other on-going AEPS costs, including
15 payments to third party administrators, costs levied by PJM to ensure that
16 alternative energy sources are reliable, and costs for alternative energy and/or
17 AECs that may be incurred through other procurements approved by the
18 Commission for the post-Cost-Recovery Period. The AEPS surcharge established
19 under this provision will be applied to the bill of each of PECO's default service
20 customers on a per kilowatt-hour basis, with the surcharge recalculated on April 1
21 of each year to become effective on June 1.

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The surcharge can be expressed by the following formula:

$$\text{AEPS Surcharge} = \frac{[(\text{Projected Costs} - \text{Over/Under Recovery}) / \text{Sales} + \text{Deferred Costs} / \text{Sales}] / (1 - \text{Tax})}{1}$$

In the above formula, “Projected Costs” represent PECO’s projected costs for AEPS compliance for a twelve-month period commencing June 1 of each year. “Over/under recovery” is the amount of the over/under recovery of PECO’s AEPS costs for the prior surcharge year and will be reconciled annually. “Sales” equals PECO’s projected default service electric sales (in kWh), and “Tax” is the current gross receipts tax rate. During the first year after the end of PECO’s Cost-Recovery Period, the AEPS surcharge would also include the “Deferred Costs” value, which is equal to the AEPS costs incurred by PECO but deferred during the Cost-Recovery Period, plus a return on the unamortized balance of those costs.

Since PECO’s Cost-Recovery Period ends on December 31, 2010, the first AEPS surcharge will be for a five-month period beginning January 1, 2011 and ending May 31, 2011. PECO will file the proposed initial surcharge for this period by November 1, 2010, to become effective January 1, 2011. Thereafter, filings setting forth proposed AEPS compliance surcharges under Section 1307 will be made on April 1 of each subsequent year, to become effective June 1.

1 **12. Q. What costs are included in the costs of AEPS compliance under this formula?**

2 A. As Mr. McCawley explains in his testimony, PECO is seeking to procure only
3 AECs during its Cost-Recovery Period and will not be purchasing the alternative
4 energy or capacity underlying those AECs. Therefore, for the first year after
5 PECO’s Cost-Recovery Period (January 1, 2011 – December 31, 2011), PECO’s
6 AEPS surcharge will recover, from PECO’s default service customers, the
7 deferred costs of banked AECs (with a return on the unamortized balance) as well
8 as the projected costs of AECs to be purchased during that first year. Following
9 the first year, and subject to reconciliation and adjustment for over/under
10 collection, the 1307 AEPS surcharge will recover the costs for AECs procured
11 during the remaining term of the AECAs and other ongoing AEPS compliance
12 costs, including payments to the AEC program administrator for its costs of
13 administering an AEC program, payments to PJM GATS for operating the AEC
14 registry, any charge levied by PJM to ensure that alternative energy sources are
15 reliable, the cost of AEPS compliance payments that are deemed recoverable by
16 the Commission, and any other direct or indirect cost of acquiring Alternative
17 Energy and/or AECs and complying with the AEPS statute (including the costs of
18 administering other procurements, the expense of an RFP Monitor, etc.). I note
19 that all these costs are consistent with the costs identified for recovery by the
20 Commission in its proposed AEPS rules. *See Proposed Rulemaking Order,*
21 *Implementation of the Alternative Energy Portfolio Standards Act of 2004,*
22 Docket No. L-00060180 (July 25, 2006) (“AEPS Rulemaking Order”), § 75.39.

1 The specific costs to be recovered through this charge are dependent, in part, upon
2 the Commission's final default service regulations and AEPS regulations, and this
3 component of the AEPS Cost-Recovery Provision may need to be revised
4 following the issuance of final rules.

5 **13. Q. How does PECO's AEPS Cost-Recovery Provision address over/under**
6 **recovery of AEPS costs?**

7 A. The AEPS Cost-Recovery Provision requires PECO to file on April 1st of each
8 year, for the 12-month period ending on January 31, the total revenues received
9 pursuant to the current AEPS charge, the amount of AEPS expenses, the
10 difference between those values, and PECO's proposed adjustment for over/under
11 recovery to be included in a recalculated AEPS Charge effective June 1 of that
12 year.

13 **14. Q. Why does PECO's proposed AEPS tariff provision use a 12 month period**
14 **ending January 31 for PECO's reconciliation year when the Commission's**
15 **proposed AEPS regulations use a 12-month reporting period beginning on**
16 **June 1 for measuring AEPS compliance by PECO and other EDCs?**

17 A. PECO believes that an EDC's AEPS surcharge should parallel an EDC's AEPS
18 compliance reporting period. However, for PECO's AEPS surcharge to parallel
19 its AEPS compliance year, the data to support the surcharge must be filed no later
20 than April 1 of each year. Because the most recent 12 months of data available on
21 April 1 would be for the 12-month period ending January 31, PECO proposes to

1 use that data to establish the over/under adjustment to the AEPS surcharge for the
2 immediately following AEPS compliance year beginning on June 1.

3 Because PECO's Cost-Recovery Period ends in the middle of an AEPS
4 compliance year (i.e. on January 1, 2011), PECO will file a proposed surcharge
5 no later than November 1, 2010. As I explained previously, this surcharge will
6 last for a five-month period (i.e., January 1, 2011 to May 31, 2011), when it will
7 be replaced by a surcharge established through a filing on April 1, 2011, as
8 described above. Given this abbreviated period for the first surcharge, I am
9 proposing that the first reconciliation cover the period from inception of the
10 surcharge to January 31, 2012. In the event the Commission's final AEPS
11 regulations propose different timing for establishing AEPS surcharges, these dates
12 shall be adjusted to be consistent with the Commission's final regulations.

13 **V. RATE OF RETURN**

14 **15. Q. Mr. Cohn, please explain why PECO is proposing to recover a rate of return**
15 **on early procurement costs.**

16 A. I understand that Act 213 expressly provides that EDCs that voluntarily undertake
17 to procure alternative energy or AECs during their Cost-Recovery Period are
18 entitled to a return on the unamortized balance of those costs.

19 **16. Q. What rate of return does PECO propose to use?**

20 A. In light of the unique, one-time nature of the Act's banking provisions, and in
21 order to expedite this non-precedential proceeding and facilitate as early a

1 procurement of AECs as possible, PECO proposes to use, for this procurement
2 only, a carrying charge of six percent (6%), corresponding to the statutory rate of
3 interest under Pennsylvania law. See 41 P.S. § 202.

4 **17. Q. Mr. Cohn, have you included an example of how PECO's AEPS Cost-**
5 **Recovery Provision will operate?**

6 A. Yes. A hypothetical example of how this provision is proposed to operate, with
7 sample customer charges, is attached as Exhibit 2.2 to my testimony. More
8 specifically, Exhibit 2.2 provides an example of how the deferral of cost during
9 PECO's Cost-Recovery Period and the recovery of AEPS costs after the end of
10 the Cost-Recovery Period will operate.

11 The exhibit makes several basic assumptions, which are consistent with the RFP
12 described by Mr. McCawley. First, I assume that PECO will add AECs from
13 alternative energy resources commencing in 2008, increasing each year to a
14 annual level of 450,000 AECs in 2010. Second, I assume that the net cost of the
15 AECs procured by PECO will be \$15 per AEC. Finally, I make certain
16 assumption regarding PECO's AEPS requirements (i.e., how many AECs PECO
17 will require to satisfy its AEPS obligations). Both the projected AEC price and
18 PECO's AEPS requirements are for purposes of this example only and are not
19 intended to suggest either the prices PECO expects to receive or the actual
20 amount of the Company's AEPS obligation at the end of the Cost-Recovery
21 Period.

1 In the example, the costs are deferred each month based upon the number of AECs
2 delivered to PECO and the associated cost of those AECs. Additionally, a return is
3 calculated on the total deferred cost each month. This cost is then added to the total
4 deferred balance. After 2010, the AEPS surcharge includes the recovery of the deferred
5 cost, the cost of ongoing AEPS purchases and starting June 1, 2012 any reconciliation of
6 the over/under recovery of AEPS costs. These costs are shown in Columns 13, 16, and
7 17 in Exhibit 2.2.

8 **18. Q. What assumptions did you make regarding PECO's use of AECs procured**
9 **during PECO's Cost-Recovery Period?**

10 A. According to the Commission's proposed rulemaking, the AECs banked during
11 the Cost-Recovery Period are to be used in two consecutive AEPS reporting
12 periods within the first three AEPS reporting periods after the end of an EDC's
13 Cost-Recovery Period. For purposes of this example only, I assumed that PECO
14 will use AECs procured in its Cost-Recovery Period during the first two full
15 reporting periods after December 31, 2010 (June 1, 2011 – May 31, 2012 and
16 June 1, 2012 – May 31, 2013). In addition, I assumed that the AECs PECO
17 required for compliance purposes in each annual reporting period will be applied
18 on a monthly basis. The monthly amount is calculated as the difference in the
19 AECs required and the AECs purchased which are represented by Columns 2 and
20 6 in my Exhibit 2.2. For AEPS reporting year June 1, 2010 – May 31, 2011, in
21 which PECO's AEPS obligations commence on January 1, 2011 (at the end of its
22 Cost-Recovery Period), I assumed that PECO will satisfy its AEPS obligations
23 using AECs generated from October 1, 2010 to May 31, 2011.

1 19. Q. When does PECO propose to recover the costs of the AECs procured during
2 PECO's Cost-Recovery Period?

3 A. Act 213 provides that the costs for AECs procured during an EDC's Cost-
4 Recovery Period should be recovered in the first year after the end of an EDC's
5 Cost-Recovery Period. *See* 73 Pa. C.S. § 1648.3(a)(3). For PECO, that would be
6 the calendar year beginning January 1, 2011. My example shows the recovery of
7 all costs for AECs procured during PECO's Cost-Recovery Period during the
8 twelve months ending December 31, 2011, with the unamortized balance of such
9 costs gradually reduced each month over that period. Columns 10-12 of my
10 Exhibit 2.2 reflect the year 2011. Assuming a cost of \$15 per AEC for purposes
11 of example only, PECO anticipates that the cost of the AEC surcharge to
12 customers, beginning January 1, 2011, will approximate \$0.0011 per kWh.

13 I note that the Commission's proposed AEPS regulations provide that an EDC
14 should recover costs for AECs procured during its Cost-Recovery Period during
15 the first full reporting year (not the calendar year) after the end of its Cost-
16 Recovery Period. *See* AEPS Rulemaking Order, § 75.39(d)(1). Because PECO's
17 proposed recovery period is consistent with Act 213 and the Commission's
18 regulations remain under development, PECO proposes that its requested waiver
19 relating to pending regulations include the recovery of AEC costs commencing on
20 January 1, 2011, at the end of PECO's Cost-Recovery Period, instead of June 1,
21 2011. PECO anticipates that this will result in a lower overall cost to PECO's
22 customers due to a more rapid reduction of the unamortized balance of AEC
23 costs.

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VI. CUSTOMER NOTICE

20. Q. Mr. Cohn, has PECO prepared a form of customer notice of the AEPS Cost-Recovery Provision?

A. Yes. PECO's form of customer notice is attached to my testimony as Exhibit 2.3 and will be included in customer bills over a thirty day period commencing approximately April 1, 2007. A copy of this filing is also posted at www.peco.com.

21. Q. Mr. Cohn, does this conclude your direct testimony?

A. Yes.